WILSHIRE CONSULTING

Attachment 8

Michael C. Schlachter, CFA
Managing Director & Principal

December 4, 2007

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Strategic Asset Allocation Recommendation

Dear Russell,

You requested Wilshire's opinion regarding the proposed new asset allocation of 56% Global Equities, 10% AIM, 19% Global Fixed Income, 5% Inflation-Linked, and 10% Real Estate (Policy Mix A in the agenda item, or 9% under policy mix B). We concur with Staff's recommendation as mix A was the asset allocation mix selected by the Investment Committee based on the total of the decision factors, and mix B reflects a request by some Investment Committee members to present a slight less-aggressive Real Estate allocation.

As you are aware, Wilshire has been involved in the asset allocation process for most of the past year, beginning with the development of asset class return, risk, and correlation assumptions late last winter through the discussions during the asset allocation workshop on November 19 and 20.

The proposed asset allocation mix increases the allocation to AIM by 4%. Although this seems like a large increase, AIM is already slightly overweight on an invested basis and has meaningful unfunded commitments. Consequently, AIM is already partly on the way to this new target. Furthermore, AIM Staff has indicated that they have the ability to add commitments at a slightly higher rate than the current "run rate" without sacrificing their ability to execute the strategy. The assumptions developed by Staff, Wilshire, and other consultants also included a declining returns to scale element which decreased the expected returns to this asset class (and to Real Estate) as the allocation increased. Despite this penalizing factor, the optimizer models and Investment Committee risk preferences clearly place a high merit on an increase to this asset class.

The proposed asset allocation mix increases the allocation to Real Estate to 10%, an increase of 2%. As noted above, this asset class' return assumption was penalized as assets increased, but the optimizer still found reasons to increase the allocation. Although the Investment Committee heard concerns from Staff and Consultants during the workshop about the short-term future of this asset class, we believe that CalPERS' global approach to real estate will be successful in the long-term. Given that this allocation is expected to drive returns over a long term horizon we find this allocation to Real Estate to be prudent. If there is a fundamental shift in this outlook, or for any other asset class, a change can be considered at the next Asset Allocation workshop in three years, if not sooner. As directed by the Investment Committee, Staff has also presented an alternative mix B which incorporates a slightly less aggressive allocation to Real Estate of 9%. The impact on expected return and risk from the 1% shift from Real Estate to Global Equities has a minimal impact, and thus we believe the deciding factors in whether mix A or B should be selected should be if Staff believes they can implement a 9% or 10% allocation successfully and if the Investment Committee has confidence in Staff's ability to execute this strategy and a positive outlook for the Real Estate sector.

The new asset class of Inflation-Linked Assets will receive an initial funding of 5%. This allocation is based on the fact that while this new asset class does not meaningfully increase expected returns, it does diversify (reduce) risk substantially and provides a more direct link of a portfolio asset class to the effects of inflation. As a result, the fairly large reduction in Global Fixed Income mainly serves to fund this new asset class with a similar return outlook, but a diversifying risk profile.

Finally, given the increase in allocation to other risky assets, like AIM and Real Estate, Global Equities will see a slight decrease in allocation, from 60% of total assets to 56%. In addition, the US/non-US shift of investments within this portfolio will shift from 2/3 US / 1/3 non-US to a global market capitalization based allocation, currently approximately 43% US / 57% non-US. As we discussed at the October Investment Committee meeting, we believe that this shift to a true global equity portfolio is consistent with the best practices in risk reduction and presents the broadest opportunity set of investments for CalPERS.

As stated in our opening paragraph, we believe that the agenda item as presented by Staff properly reflects the risk preferences elucidated by the Investment Committee at the November workshop and either mix A or B should be adopted, depending on the Investment Committee's willingness to expand this program accordingly.

We look forward to implementing the new asset allocation over the next several months and we invite you to contact us if you wish to discuss this matter further.

Sincerely,